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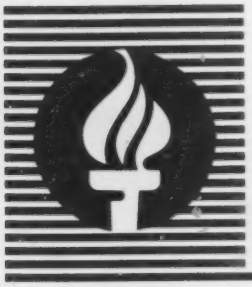

The Conference Board

Competitive Intelligence

- *Companies intensify quest for information on competitors*
- *Focus intelligence efforts on pricing-strategy-sales*
- *View sales force and customers as best sources*
- *Top management commitment critical to success*

Research Report No. 913

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Competitive Intelligence

by Howard Sutton

A Research Report from The Conference Board

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FROM THE PRESIDENT

With competitive pressures intensifying, companies are keeping a closer eye than ever on their competition. Increasingly, they are seeking more formal, systematic ways of answering such key questions as: Who are our competitors? What can we do to outmaneuver them?

Consequently, competitive intelligence—the practice of tracking competitors and predicting their movements—has been gaining new attention and new adherents. This report summarizes the findings of a Conference Board survey on competitive intelligence activities and shows how managements are using such information to make strategic decisions. Its findings and examples will be useful to marketing, strategic planning, and general management executives involved in analyzing the competition.

The Conference Board is grateful to the 315 companies that participated in the survey. We offer special thanks to those executives who were interviewed at length and allowed us to report on their programs in detail.

JAMES T. MILLS
President

Highlights

Competitive intelligence (CI) is both the product and the process of collecting various kinds of data thought to be relevant—anything from trade rumors and financial statistics to product specifications and news of plant construction—and then selecting, interpreting, and presenting the data as information to be used in decision making. What generally separates competitive intelligence from basic market-share and product-tracking information is that in its highest form it has strategic import. That is, the analysis not only describes the company's present position but also suggests what should be done to advance it.

Objectives. Among the primary objectives of competitive intelligence are to:

- Avoid surprises
- Identify threats and opportunities
- Gain competitive advantage by decreasing reaction time
- Improve planning
- Understand your own company better.

Complications. A competitive intelligence system, like a computer system, is hard to justify in advance. After all, if the company has been getting along without one, it may not really be necessary. And even if senior managers are in general agreement that a system would be useful, they have no sure way of knowing how much to invest in it. Furthermore, since there are so many different ways to define competitive intelligence and so many different approaches to gathering, processing, and presenting CI information, there's a good deal of confusion about what CI is and what it can contribute. For example, many managers equate competitive intelligence with marketing research, and may be inclined to think the company already has most of the information it needs to support strategic decisions. Another obstacle is the common perception that it's very difficult to collect the kind of data required for sophisticated competitive intelligence analysis. However, as many CI practitioners point out, there is so much information available, that the main problem is not in collecting it but in deciding what's useful.

Survey of executives' opinions. A Conference Board survey of of more than 300 marketing, sales, and planning managers, reveals that nearly all think it's important to monitor competitors' activities. But they also say they feel somewhat stronger about this than their companies' top managers. Although many survey respondents acknowledge that their monitoring systems aren't very well developed, the consensus is that they will increase such efforts.

Assigning responsibility. The Board's survey also shows that the person responsible for monitoring usually has a marketing or marketing research title and the rank of manager or director. That person usually reports to someone with a marketing or sales title, with the rank of vice president or higher.

Organizational variations. Most companies surveyed have very simple CI systems, but some have fairly elaborate ones. Here are the four main variants:

- *CI as a manager's collateral responsibility.* In many companies, the marketing or sales manager—or even the general manager—is expected to draw on the sales force or distributors for information on competitors. While there may be a formal reporting method, such as the sales call report or a sales manager's summary of activity in his or her district, most information seems to be acquired by "keeping an ear to the ground."
- *A central CI office.* In this case, responsibility for all of the CI functions—collecting, analyzing, storing, and disseminating information—is in the hands of one person or of a group at corporate or division headquarters.
- *An electronic network.* In rare cases, a company may have a network connecting managers responsible for collecting competitive information in corporate headquarters and separate business units.
- *An analytical team.* In some companies, the most conspicuous characteristic of the CI system is the use of teams of people from different departments to analyze the information and to recommend appropriate action to top management.

Most useful types and sources of information. The managers surveyed say that pricing, strategy, and sales data are the most useful types of competitive information. The sales force is by far the most useful source.

Keys to success. The managers also say that commitment, specific objectives, and continuity are essential to effective systems. Many CI practitioners emphasize that it's almost impossible to succeed without the support of top management and without the efforts of a "champion," someone who has the necessary drive and authority to set up a CI organization and make it work.

Part I
An Overview of Competitive Intelligence

Chapter 1
Introduction

"Next to knowing what your customers want, the most important thing is to know what your competitors are doing." This remark, by John Rhode, vice president of marketing and planning with Combustion-Engineering's Industrial Group, summarizes the case for competitive intelligence.

This report provides an overview of competitive intelligence (CI) and explains what corporate executives think about it and what their companies are doing about it. The findings are derived from a survey, described in the box below, and from interviews with executives who have considerable practical experience with competitive intelligence.

Competitive intelligence isn't exactly new, but there's no question that interest in it has increased over the last few years. Dozens of articles on the subject have appeared in marketing and planning journals, several how-to books are available, and CI seminars are commonplace. The Society of Competitor Intelligence Professionals,[1] which was established in 1986, has grown rapidly.

The reasons for the surge of interest in the United States are fairly obvious. The sharp rise in competitive pressures from producers across the Atlantic and the Pacific has forced some serious rethinking of what competition is all about. It's become clear that managers not only need up-to-date information about their competitors' activities but also have to make strategic use of that information.

If there's been a renaissance in strategic thinking, much of the credit belongs to Michael Porter of the Harvard Business School. His *Competitive Strategy: Techniques for Analyzing Industries and Competitors*[2] has highly influenced corporate executives in general and CI practitioners in particular. A key chapter gets right to the point:

> Competitive strategy involves positioning a business to maximize the value of the capabilities that distinguish it from its competitors. It follows that a central aspect of strategy formulation is perceptive competitor analysis. The objective of a competitor analysis is to develop a profile of the nature and success of the likely strategy changes each competitor might make, each competitor's probable response to the range of feasible strategic moves other firms could initiate, and each competitor's probable reaction to the array of industry changes and broader environmental shifts that might occur. Sophisticated competitor analysis is needed to answer such questions as "Who should we pick a fight with in the industry, and with what sequence of moves?" "What is the meaning of that competitor's strategic move and how seriously should we take it?" and "What areas should we avoid because the competitor's response will be emotional or desperate?" [3]

Of course, Professor Porter has his critics. Some practitioners think that his discussion of competitor analysis isn't very realistic, and that it would be extremely difficult to collect all of the information he considers essential. Another

Method

The Conference Board mailed an eight-page questionnaire on competitive intelligence to 1,483 executives. Most had marketing or sales titles; a few had planning titles. A month later, the same questionnaire went to those who hadn't yet replied. The two mailings yielded 315 usable replies, a 21 percent return. Table 1-1 shows the kinds of organizations that are represented in the sample.

Table 1-1: Types of Organizations Represented in Sample

Respondents reporting on:	
Company as a whole	46%
A particular operating unit	52
No response	2
	100%
Principal end users of products or services:	
Industrial, commercial, institutional users	50%
Individual consumers	23
Both	25
No response	2
	100%
Number of respondents	315

The author also conducted interviews with over two dozen executives, including selected survey respondents with experience in organizing or supervising competitive intelligence projects.

[1] 8375 Leesburg Pike, #428, Vienna, Virginia 22180.

[2] New York: The Free Press, 1980.

[3] P. 47.

view is that there's been far too much emphasis on strategy and rivalry and not enough on operating details and doing things well. In a *Harvard Business Review* article titled "Hustle as Strategy," Amar Bhide writes:

> Opportunities to gain lasting advantage through blockbuster strategic moves are rare in any business. What mostly counts are vigor and nimbleness. These traits are always needed and always important, yet strategic planning theologians largely ignore them. Countless companies in all industries, young or old, mature or booming, are finally learning the limits of strategy and concentrating on tactics and execution. In a world where there are no secrets, where innovations are quickly imitated or become obsolete, the theory of competitive advantage may have had its day. Realistically, ask yourself, if all your competitors gave their strategic plans to each other, would it really make a difference?[4]

That's a minority opinion, however. Whether they formulate specific strategies or not, most managers consider strategic thinking and strategic information important. The theory of competitive advantage seems likely to survive.

[4] September-October, 1986, p. 59.

Defining Competitive Intelligence

In this report, the terms competitor intelligence and competitive intelligence will be used interchangeably to refer to collecting various kinds of data that may be relevant—anything from trade rumors and financial statistics to product specifications and news of plant construction—and then selecting, interpreting, and presenting the data as information to be used in decision making.

What generally separates competitive intelligence from basic market-share and product-tracking information is that competitive intelligence, in its highest form, has strategic import. That is, the analysis is not limited to revealing where the company or division is now but what should be done to improve its position.

Many professionals think that one of the main inhibitions to competitive analysis is that there's far too much information, and it's hard to separate the essential from the inessen-

Defining Competitive Intelligence

Competitive intelligence is hard to define. The published definitions are collectively as puzzling as Samuel Johnson's famous definition of a network: "Any thing reticulated or decussated, at equal distances, with interstices between the intersections."

Here, for example, are a few statements extracted from various sources:

Business intelligence (BI) is the activity of monitoring the environment external to the firm for information that is relevant for the decision-making process in the company ... Informal BI involves uncoordinated BI activities carried on by individuals on an ad hoc basis. A formal BI process is organized, systematic, and ongoing, and it produces high quality intelligence.[1]

Competitor intelligence is the analytical process that transforms disaggregated competitor data into relevant, accurate and usable strategic knowledge about competitors' position, performance, capabilities and intentions.[2]

Competitor intelligence is "highly specific and timely information about a corporation."[3]

The objective of competitor intelligence is not to steal a competitor's trade secrets or other proprietary property, but rather to gather in a systematic, overt (i.e., legal) manner a wide range of information that when collated and analyzed provides a fuller understanding of a competitor firm's structure, culture, behavior, capabilities, and weaknesses.[4]

Competitive intelligence is a way of thinking.[5]

Some observers try to cut through the confusion by defining what competitive intelligence is not. In an article titled "Demystifying Competitive Analysis," Daniel Smith and John Prescott state their thesis in terms of several "myths." For example:

- Competitive analysis is only necessary in highly competitive environments.
- Competitive intelligence is costly and appropriate only for major decisions.
- Competitive intelligence personnel are primarily information gatherers.
- Competitive intelligence is simply marketing research in disguise.[6]

But there is a consensus of a sort. "Competitor intelligence" usually refers to developing profiles of individual competitors. "Competitive intelligence" is a somewhat broader term referring to the analysis of competitors and competitive conditions in particular industries or regions. "Business intelligence" is broader yet and includes competitive intelligence, analysis of potential acquisitions and mergers, risk assessments for particular countries, and counterintelligence.

[1] Benjamin and Tamar Gilad, *The Business Intelligence System: A New Tool for Competitive Advantage* (New York: AMACOM, a division of American Management Association, 1988), p. viii.

[2] Seminar guide, The Competitor Intelligence Group, division of Kirk Tyson & Associates, Ltd., p. III-11, 1986.

[3] Leonard M. Fuld, *Competitor Intelligence: How To Get It; How To Use It* (New York: John Wiley & Sons, Inc., 1985), p. 9.

[4] William L. Sammon, Mark A. Kurland, and Robert Spitalnic, *Business Competitor Intelligence* (New York: John Wiley & Sons, Inc., 1984), p. 62.

[5] William E. Rothschild, *How to Gain (and Maintain) the Competitive Advantage in Business* (New York: McGraw-Hill Book Company, 1984), p. 179.

[6] *Planning Review,* September/October, 1987, p. 8.

tial. On the other hand, many companies seem to avoid competitive analysis because they're not sure what they want, and they're not sure it's worth the trouble to find out. Michael M. Kaiser Associates provide this observation:

> The most common reason why firms have not performed more competitive analysis is the perceived difficulty of finding the required data. Competitive analyses are treasure hunts. One is trying to uncover enough data to answer questions which relate to another firm's resources and personality: the search is often time consuming and frustrating. To make matters worse, after completing the analysis, it is impossible to be sure that the conclusions are correct. Collecting as much pertinent information as possible increases the odds of accuracy but one has to guard against spending too much time collecting data. A superior competitive analysis is the one with the most insights, not the one with the most facts. The goal is to gather the data which supports the generation of these insights.[5]

Asking the Right Questions

What are the right questions for managers to ask when making competitive appraisals? In a *Planning Review* issue devoted to competitor intelligence, Liam Fahey, the editor, offers the following:

- "Which current and potential competitors should we analyze and why?
- "What do we need to know about these competitors and why?

[5] *Understanding the Competition: A Practical Guide to Competitive Analysis* (Vienna, Virginia: Michael M. Kaiser Associates, Inc., no date), p.9.

A Veteran's View of Competitive Intelligence

William Copulsky, vice president, general development, W. R. Grace & Co.[1]

Competitive intelligence is just part of the big picture. What's happened in the last two or three years is that a lot of books have come out on competitive intelligence, and that suggests an increased emphasis. But it's something we've been doing at W.R. Grace for many, many years. I gave talks on competitive intelligence maybe 30 years ago.

Competitive intelligence isn't just a gathering of facts. What you have to get at is your competitor's strategy, because that determines what he's going to do. But it varies with the particular business. In commodity chemicals, the issue is price. So the main goal of competitive intelligence is to find out what the competitor is doing about his pricing. But in specialty chemicals, where pricing is not the key factor, you have a bunch of possible strategies. You want to know what kind of service the company is giving, how big the sales force is, what kind of salesmen are employed, what kind of niche the company is trying to make for itself. Or if you want to get into a new industry, you want to know who the key players are, what their positions are, and how profitable they are.

More Information Than You Can Handle

You don't have to do anything illegal to get the appropriate information. There's more information around than you can handle. American companies aren't particularly secretive about what they do; they talk about capacities and processes and so on. You can pick up things at trade shows, from security analysts, and in published reports.

Generally, competitive intelligence should be handled at the divisional level. It can't be handled centrally, except to review the reports the divisions provide. Some companies have departments that gather all kinds of data, but this doesn't get anywhere. Nothing happens. For example, the company president reads that competitive intelligence is the thing. He says, "Hey, let's get somebody to do this." So they hire some guy, and he starts to build up files. Pretty soon he has far more stuff than anybody can ever read. And a project that doesn't make sense competitively goes ahead because top management thinks everyone's been informed.

The information has to be narrowed before it goes to the top. For instance, we have a wholesale chocolate business and sell to people who make chocolate cookies. So the salesman goes in to, say, Procter & Gamble, and the buyer says, "Well, your competitor was here, and he's offering me the same product for 20 percent less." Then the salesman has to get hold of the product and have it analyzed, and he has to confirm that the purchasing agent is right about the offer.

On a big account like that, the information would go all the way to the top. But the people at the top can't specify in advance what information is critical. Only the salesman, who's on the firing line, can make that decision.

As Much an Art as a Science

Another point is that you can't assume that the competitor's moves are rational. If you do, you may make a counter move that is a waste of time. It's important to evaluate the information carefully. There's also the question of the role of computers in competitor intelligence. Computers limit the amount of information. There's so damned much information that you can't put it all in a computer. And if you have one person feeding information into a computer and another person trying to get it out, you may not be able to define what would be useful.

Competitive intelligence is as much an art as it is a science. It's hard to tell what to look for. It's a matter of experience. As the guy said about pornography, "I know it when I see it."

[1] Since retired and now professor of marketing at Baruch College, City University of New York.

- "How can we learn what we need to know, what are the most useful data sources, and how can we tap into them?
- "How can we analyze the data to make it relevant for decision making?"[5]

The emphasis in most companies seems to be on understanding the competition in order to predict behavior and prepare response. Some common objectives are to:

- Avoid surprises.
- Identify threats and opportunities.
- Gain competitive advantage by decreasing reaction time.
- Improve long- and short-term planning.[7]

On the other hand, Mr. Fahey sees competitive analysis as a way of learning about your own company:

> The fundamental purpose for analyzing your competitors is to understand your own organization better. Suppose you're trying to move a new product quickly from R&D to the marketplace—which is becoming increasingly important in this age of shortening product life cycles. Inevitably, you begin to compare yourself to your major competitors. Why does it take you longer to get your products on the market, you ask. Is your organization's culture at fault? Is it your incentive structure? Do your key functional areas not have much opportunity to interact? How can you correct these faults? Taking a long, hard look at your competitors provides you with a mirror in which to examine your perceptions about your own organization and to discover blemishes of which you may not have been aware.[6]

[5] *Planning Review*, September/October, 1987, pp. 39-41.

[7] Seminar guide, The Competitor Intelligence Group, p. III-19., 1986.

[6] Ibid, p. 41.

Survey Results

The Board's questionnaire included several general questions about executives' attitudes toward monitoring competitive activities, the importance of monitoring, how well developed their companies' monitoring systems are, and trends of monitoring activity.

Importance of monitoring. Participants expressed their attitudes toward monitoring competitors' activities and speculated about the attitudes among top management in their companies. The responses are summarized in Tables 1-2 and 1-3.

Key points:

- Nearly everyone thinks monitoring is important.
- Middle managers (which is what most of these respondents are) say they feel somewhat more strongly about this than they think their companies' top managers do.

The level of development. The executives described the level of sophistication of their monitoring systems and, in those instances where a formal system was in place, how effective it was (Tables 1-4 and 1-5).

Key points:

- Most companies don't have well-developed systems.
- Consumer-products companies have better developed systems than industrial-products companies do.

The trend in competitor monitoring. Participants reported whether their units' monitoring efforts were likely to increase, decrease, or hold at about the same level. (Table 1-6.)

Key point:

- A solid majority expect their monitoring efforts to increase.

Table 1-2: Importance of Monitoring Competitors' Activities: Respondents' Views

	Percent Distribution
Very important	68%
Fairly important	30
Slightly important	2
Not at all important	0
	100%

Based on responses from 308 companies.

Table 1-3: Importance to Top Management of Monitoring Competitors' Activities (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Very important	59%	57%	58%	63%
Fairly important	30	29	32	28
Slightly important	11	13	10	9
Not at all important	–	1	–	–
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 1-4: Relative Development of Company Monitoring System
(by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
A fully developed system	3%	2%	6%	4%
A fairly well-developed system	34	30	43	35
A loosely developed system	48	49	41	51
No formally organized system	15	19	10	10
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 1-5: Effectiveness of Company Monitoring Systems*
(by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Very effective	9%	7%	13%	9%
Fairly effective	71	71	72	67
Fairly ineffective	18	20	13	21
Very effective	2	2	2	3
	100%	100%	100%	100%
Number of responding companies	228	110	60	58

*Question asked of companies with formal systems.

Table 1-6: Trend of Company's Monitoring Activities
(by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Over the new few years, the company's monitoring efforts will:				
Increase	67%	66%	66%	71%
Decrease	1	1	1	2
Hold at about the same level	32	33	33	27
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Chapter 2
Organizing a Competitive Intelligence Operation

While there's widespread agreement that competitive intelligence can be useful to a business enterprise, there's not much agreement about how much effort should go into an intelligence operation. This can be a problem. Senior managers have to be convinced that it's worth investing in competitive intelligence. And if the product isn't perceived as genuinely useful, the effort may deteriorate into collating clippings from industry periodicals.

The ideal case may be where top management provides the necessary impetus. For example, Robert W. Galvin, chairman and then chief executive officer of Motorola, Inc., decided his company needed a full-scale business intelligence operation. He detailed exactly what characteristics he wanted it to have and then hired a former Central Intelligence Agency professional to organize it and make it work. (See box, page 10, and a further description of Motorola's approach on page 27.)

In other cases, the impetus may come from lower tiers of management. For example, at Searle Laboratories, Juliana Simmons, director of marketing research, saw a need for a systematic CI operation and took it upon herself to organize one. A mechanism for collecting information on competitors already existed, but it had become, as she puts it, "binder heavy." Articles and press releases were stored in huge binders and ignored. With the approval of the vice president of marketing, she and her staff introduced methods for quickly absorbing information from the sales force using an 800-number hotline, special forms for conveying data on competitors, a CI question included in electronic call reports, and on-line data queries using key words for sourcing. She also had a logotype designed for the newsletters and flash reports used to disseminate competitive intelligence. Rather than collections of inert data, the final products were succinct, well-packaged, and well-received reports. Ms. Simmons notes, however, "If you're going to set up a system like this, you have to have upper-management commitment, because it is expensive."

Is it possible for a middle manager to establish a CI system *without* top-management support? One experienced practitioner says, "It's possible but very difficult. After talking with a number of other companies, I'd say a successful CI operation in one division might be emulated by someone in another division, but there's no pressure to do so. It's very difficult to start in the middle and build outward. It takes forever. And if the present general manager of the division is replaced by one who isn't interested in intelligence, the operation is likely to die. You have to find a way to institutionalize it."

The same executive goes on to say, "Business intelligence is such a new discipline that very few people understand what it is or how to use it. The subject isn't taught in business schools, and a lot of people think it's the same as marketing research. So you have a constant battle to prove your worth. One study done a few years ago showed that it takes about three years for an intelligence department to be culturally accepted. That's a long period to hang on. A lot of companies just won't do it. If you have an economic downturn, the intelligence operation is one of the first things to cut. What you need is a chance to affect a major decision. You need one or two big wins to get the point across. A series of little decisions won't add up to much credibility."

Is a Permanent System Necessary?

Those who are most committed to competitive intelligence naturally favor permanent systems, and these certainly have advantages. Michael Porter summarizes the case:

> To be effective, there is the need for an organized mechanism—some sort of competitor intelligence *system*—to insure that the process is efficient . . . It is all too easy for bits and pieces of data to be lost, and the benefits that come only from combining these bits and pieces thereby foregone. Analyzing competitors is too important to handle haphazardly.[9]

Taking the opposing view, Daniel Smith and John Prescott recommend a project-by-project approach:

> Perhaps the most widely held and most harmful myth about competitive analysis is that it must be a comprehensive process undertaken in a standard or systematic fashion for all competitors. Undeniably, certain types of competitive intelligence, such as changes in key characteristics (capacity utilization, relative cost position, and profitability, etc.), should be obtained for each competitor. However, a single-minded perspective often results in generalized information that can mask the idiosyncrasies that often lie at the heart of a particular competitor's strengths and weaknesses.[10]

[9] *Competitive Strategy*, pp. 72-74.

[10] *Planning Review*, September/October, 1987, p. 9.

Central Intelligence at Motorola

Jan P. Herring, director of corporate analytical research:[1]

It's important to start out with the full approval of the top person—the CEO or the general manager of the unit. Motorola's initiative must be attributed to the foresight of its chairman and then CEO, Bob Galvin. His inspiration came from serving on the President's Foreign Intelligence Advisory Board during the 1970s. Based on that experience, he concluded that multinational companies would benefit from intelligence capabilities similar to those used by national governments, particularly as the business world became more global and internationally competitive. Bob also believed that a good strategy could be no better than the information on which it was based. He concluded that Motorola's strategy effort would be supported by a strategic intelligence program.

Motorola's approach was to hire a professional intelligence officer to come in and develop the program. I was fortunate enough to have been chosen for that position. Bob's direction to me was threefold: The operation must above all else be legal and ethical; it must serve both corporate and operational managers equally; and it should be the best in the corporate world.

An Intelligence Community

We spent the first nine months studying Motorola's intelligence capabilities and needs. We were surprised: many of the intelligence operations that Motorola had in place were very, very good. They just had not been tied together in any fashion that would allow the people at the top to get the benefit developed by people throughout the corporation.

After that, we spent about three months designing Motorola's intelligence system. It had to fit the company's decentralized organization and corporate culture. The design is best described as an intelligence community, where there is a clear division of responsibility between the corporate intelligence office and the operational divisions—each organization contributing its part to make up the whole system. Only the intelligence database would be centralized. But because Motorola has a superb worldwide communications network, with some 5,000 electronic mail terminals, all intelligence collectors and users would be able to access the database.

Dividing the Responsibility

Actual divisions of effort would probably vary from company to company, but this is the arrangement we worked out within Motorola:

- *Corporate Responsibilities (strategic focus)*
  - Maintain corporate-wide database;
  - Coordinate collection and serve as corporate clearing house for strategic intelligence reporting
  - Lead corporate-wide analysis projects;
  - Support the operational divisions' intelligence activities, both collection and analysis
- *Operating Division Responsibilities (tactical focus)*
  - Operational/tactical intelligence collection
  - Division-level analysis
  - Support corporate collection and analysis efforts

The location of an intelligence system is a very important decision. It depends a lot on the corporate organization, the culture, and the unit's primary functional responsibilities. We decided that the unit should be part of the corporate strategy office. This location certainly fit Bob Galvin's vision of having a strategic intelligence operation to support the corporate strategy effort. Furthermore, it was properly placed to support new business developments and acquisitions. Moreover, with direct access to the CEO's office, the intelligence department is positioned to provide early indications of possible threats and opportunities. It is a very personal, direct relationship.

[1] Now vice president, business planning and strategy, The Futures Group. Earlier, he had spent 20 years with the Central Intelligence Agency. These comments are drawn from a talk at a recent Conference Board program.

Although a formal system may not be necessary, it may be preferable to an ad hoc approach. For most companies, the most realistic way to deal with competitive intelligence may be to start small and build slowly. Consultant Kirk Tyson acknowledges the advantages of a system but offers this advice: "The best way to sell the concept is to... string together a series of small successes. This illustrates the importance of the function to managers who may not initially appreciate the value of a coordinated approach."[11]

[11] *Business Intelligence,* (Lombard, Illinois: Leading Edge publications, 1986). p. 142.

Where Does CI Belong in the Organization?

Where the CI group is located will depend in part on the size of the company and the diversity of its product line. Competitive intelligence can support either corporate strategy or business-unit strategy, but the CI operation should probably be located with the group that's actually responsible for the thinking behind the strategy. Part II of this report shows how several different companies handle the organization issue.

Although each company has its own approach, there are several main variants:

- *CI as a manager's collateral responsibility.* In many companies, the marketing or sales manager—or even the

general manager—is expected to draw on the sales force or distributors for information on competitors. While there may be a formal reporting method, such as the sales call report or periodic sales manager's summaries of activity in his or her district, most information seems to be acquired by "keeping an ear to the ground."

- *A central CI office.* In this case, responsibility for all of the CI functions—collecting, analyzing, storing, and disseminating information—is in the hands of one person or a group at corporate or division headquarters.
- *An electronic network.* One example is AT&T's network of experts, which is, in effect, an electronic Rolodex. Although the network is administered by a group in the corporate planning department, each business unit collects its own intelligence data, and the 800 members of the network are encouraged to exchange information with each other. (See the commentary on page 22.)
- *The analytical team.* In some companies, the most conspicuous characteristic of the CI system is the use of teams of people from different departments to analyze the information and make recommendations to top management. (See the examples in Part II.)

Survey Results

Tables 2-1 and 2-2 show the function and rank of people who have responsibility for monitoring competitors' activities in the companies surveyed. Tables 2-3 and 2-4 show to whom, by function and rank, they report.

Key points about *functions*:

- The person responsible for monitoring usually has a marketing or marketing research title.[12]
- That person usually reports to someone with a marketing or sales title.

Key points about *rank*:

- The person responsible for monitoring is usually in middle management, with the title of manager or director.
- That person usually reports to someone with the rank of vice president or higher.

Impediments and Opportunities

The importance of specifying objectives seems obvious, but apparently this is where many CI organizations go wrong. It's tempting to define the job as finding out everything that seems important to know about competitors X, Y, and Z, but that may yield a lot of data and not much guidance.

Another problem is that some CI practitioners expect top management to tell them what kinds of information is important. The fact is that top management may not know. In the absence of instruction, the CI staff may be guided by the most recent strategic plan. Ideally, of course, the plan should evolve from competitive analysis.

What kind of qualifications are required to handle competitive analysis? If the analysis is assigned to an experienced CI professional, or to a team of specialists from different departments, it may produce conclusions that will have a significant effect on strategy. The danger is that the task may be left to a fairly junior analyst who won't be able to distill the information for planning purposes.

Regardless of how competent the CI group is, some line managers may consider the group's reports irrelevant or intrusive. The other side of that problem is that CI people need information from line managers, who may be reluctant to give it up: knowledge is power. A third problem is that the CI group may be called in to comment on a proposal already submitted by a line manager. At that point, the CI group is

[12] There is possible bias here, since most of the people in the survey sample had marketing titles.

Table 2-1: Functional Title of Person Responsible for Monitoring Competitors' Activities (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Marketing	36%	43%	18%	36%
Marketing research	15	13	25	10
Sales	10	9	8	13
Strategic planning	6	4	13	4
General manager	3	4	1	3
Other	6	4	4	12
No answer	24	23	31	22
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 2-2: Rank of Person Responsible for Monitoring Competitors' Activities (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Manager	32%	36%	29%	26%
Departmental director	13	13	17	10
Vice president	12	11	8	18
Analyst	5	5	–	9
General manager	3	3	1	4
Senior vice president	1	1	–	1
Other	10	8	14	10
No answer	24	23	31	22
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Integrating Intelligence Activities

William L. Sammon, manager of competitive analysis, corporate strategic planning, Pfizer, Inc.

I came out of military intelligence, and a lot of the work I've done at Pfizer is to try and translate some of the methodologies, systems, and work patterns from the military to the corporate environment. They're both complex organizations, and their intelligence is geared to decision-making. What struck me was that in the corporate world three groups monitor competition very closely. The primary one is marketing; the secondary, planning; and a more focused one, research and development.

Marketers tend to be very tactically oriented. They don't look at companies; they look at products and markets. Planners, because they're concerned with capital markets and thus Wall Street, tend to be very sensitive to such questions as, "Where do we stand in relation to our direct competitors?" They think in terms of companies. Research and development cuts both ways.

Ideally, the competitive intelligence function should be integrated. If it is controlled by the marketing people, it doesn't reach its potential. If it's dominated by the planning people, it can turn into a very dry, financial evaluation. The research people naturally focus on science and technology.

Systems and Politics

Competitive intelligence should also be systematic. It's an uphill struggle for corporations to make systems work. My guess is that most of the successes have been ad hoc and that very few systems can demonstrate their effectiveness, mostly for political reasons. If there's no intelligence function per se, a useful project gets defined as a marketing success, or a planning success, or a research success. The advantage of a system is continuity, and the practitioners and users get smarter over time. But a system sometimes gets in the way, because it represents a new form of bureaucratic activity that can be seen as dangerous.

In some companies, there's a fairly aggressive, informal networking between marketing, manufacturing, and research—anybody who comes in contact with the competition. But few companies have a formal system that encourages that kind of cross-linking and exchange of competitive information. I believe that, in a majority of cases, the marketing person takes pride in self-sufficiency and is not interested in the kinds of information that financial, credit, or research people can provide. He doesn't understand their language and would feel somewhat threatened if he were too dependent on them for information on direct competitors.

Actionable Intelligence

It is necessary to have someone who is in a position to integrate competitive intelligence. At the business level, it should be the general manager—the president or the chairman of the company—who sees it as an ongoing part of the decision-making process. He could tap a senior executive in marketing, manufacturing, or R&D to act as a catalyst.

I'd pick the sharpest guy; the functional title doesn't matter. I'd get the person who's viewed as a rising star. I'd say, "Look, one of your jobs in this unit is to make sure we're coordinating different types of information on the competition and turning it into actionable intelligence." He'll have the clout, and clout is critical.

[1] Mr. Sammon, coauthor of *Business Competitor Intelligence,* is now healthcare equities research analyst, Wood Gundy Inc.

in a no-win position: if the group approves the proposal, the group will have made no apparent contribution; if the group disapproves or criticizes, it's considered obstructive. All of this suggests that, for the head of the CI group, political talent may be as important as analytical talent.[13]

CI groups often struggle with the question of how to handle miscellaneous bits and pieces of information that may be important parts of the puzzle. Numeric data can be manipulated with any number of software programs, and on-line databases provide easy access to published information, but practitioners report that computers cannot yet handle miscellaneous bits and pieces of verbal information.

One CI executive notes the problem of working with management information systems (MIS) people. He had the option of having the MIS group set up a central system for him or hiring a consultant with knowledge of the needs of a CI department. In retrospect, he would have preferred to go with the consultant, because the MIS group spent about a year reinventing the wheel.

A number of people have commented on the need for a champion, someone who has the necessary drive and authority to establish a CI operation and make it work. William Sammon says (see box above): "I'd get the person who's viewed as a rising star... He'll have clout, and clout is critical."

[13] See Sumantra Ghoshal and Seok Ki Kim, "Building Effective Intelligence Systems for Competitive Advantage," *Sloan Management Review,* Fall, 1986, 49-58.

The Key To an Effective System

Table 2-5 summarizes executives' answers to the question, "What do you think is the single most important key to maintaining an effective monitoring system?"

Key point:

- Commitment, specific objectives, and continuity seem to be essential.

Elaborating, one practitioner reports: "Having the ability to see through the eyes of your competitors is the ultimate goal of a competitive intelligence system, and you need three things to make it effective. First, you need support from upper management. This is difficult and, frankly, it took us several years to get our intelligence group integrated into the strategic process. Intelligence is now a subcommittee of the strategic planning group, and we're very happy about that.

"Another thing you need is a champion or an evangelist for the competitive intelligence function, and I think I've been able to perform that role. You also need to receive some direction from those who use your services. Like a computer system, a competitor intelligence system is hard to justify up front. But eventually it becomes clear that strategic decisions made with inadequate or incorrect competitive information could cost the company millions of dollars."

Table 2-3: Functional Title of Executive to Whom Monitoring Person Reports (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Marketing	26%	23%	32%	23%
Sales	11	11	10	12
General manager	9	15	3	5
President	9	10	3	12
Planning	4	4	7	5
Marketing research	3	1	6	4
Chairman	2	2	1	1
Chief executive officer	1	1	–	1
Other	11	10	8	15
No answer	24	23	30	22
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 2-4: Rank of Executive to Whom Monitoring Person Reports (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Vice president	28%	31%	28%	22%
Departmental director	15	15	19	10
President	9	10	3	12
Manager	8	6	4	15
General manager	5	6	–	6
Senior vice president	4	1	7	6
Executive vice president	2	1	3	4
Chairman	1	2	1	1
Chief executive officer	1	1	–	1
Other	3	4	4	1
No answer	24	23	31	22
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 2-5: Key to Maintaining an Effective Monitoring System (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Employee commitment, motivation	16%	15%	20%	12%
Specific objectives, procedures	12	13	14	5
Consistent, continous monitoring	11	12	11	10
Assign specific responsibility	9	9	13	8
Top management interest, support	7	6	6	8
Timeliness	6	6	7	4
Good lines of communication	5	6	1	9
Good monitoring staff	4	4	3	4
Competent analysis	3	3	3	5
Periodic reports	3	3	1	5
Make use of the information	2	1	3	4
Incorporate information in strategy	2	1	–	5
Accurate, reliable information	2	–	6	1
Adequate resources	2	2	1	1
Show employees that information is useful	1	1	–	–
Other	7	11	4	10
No answer	8	7	7	9
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Chapter 3

Operating a Competitive Intelligence System

As Theodore Levitt pointed out in "Marketing Myopia,"[14] the huge railroad companies declined because the managers assumed that they were in the railroad business rather than the transportation business. The point is relevant for competitive intelligence: The company that misdefines its business may collect information on the wrong competitors, which may lead to the wrong strategy.

The general view seems to be that, once a firm has decided who its competitors are, it should be fairly selective in deciding which to follow closely. If the assignment is to collect anything of interest about even remote competitors, it's unlikely that genuinely useful intelligence will be produced.

[14] Published in *Harvard Business Review* in 1960 and included in *Innovation in Marketing* (New York: McGraw-Hill Book Company, 1962), pp. 39-75.

Useful Types of Information

There is surprising unanimity about which types of information companies find relatively useful. Presented with a list of about two dozen types of information about competitors, executives responding to The Conference Board's survey were ask to rate each as to usefulness for their companies (see Table 3-1).

Key points:

- Information on pricing, sales data, strategic plans, market share, key customers, new product programs and expansion plans rank at the top of the list.
- There's less interest in such matters as how competitors are organized or how they operate.

Survey respondents were also asked to identify the single most useful type of information about competitors' activities for their units' purposes (Table 3-2).

Counterintelligence

A marketing vice president:

Competitive intelligence works both ways. A top executive with one of our principal competitors toured our Mexican plant. I later received a list of the people on the tour and recognized the executive's name because he had been a customer years ago. The people at the plant would have recognized the division name and would have politely stopped him, but his current title was associated with the parent company and the tour directors didn't make the connection. I saw him at a trade show later on and said I'd heard he had been practicing his Spanish. He laughed and admitted that it came in handy.

After I had confirmed that this executive had toured our plant, our people argued back and forth about whether that was legitimate behavior. We decided it was. It was legitimate for him to try and legitimate for us to stop him at the gate, if we had recognized him as a competitor. As a result, we've been a little more specific with tour invitations.

We've also been more sensitive with customers. We've said, "We're willing to show you some things but we ask that you hold them in confidence. Some may be of some real significance to our competitor, and we would appreciate your not discussing them for three months."

Another source of competitive intelligence is job interviews. One of our competitors tried to hire one of our employees and told him he was going to completely turn over the staff in the marketing organization that he had inherited and to hire highly competitive people. Everything was going to change. As it turned out, he didn't hire our employee, but we've talked to our professional people about this. We've said, "From time to time, you're going to get job offers, and we want to make sure that you understand what we believe is proper behavior. It's appropriate that you are looking out for your family and considering all the options. What is not proper is to give them facts about our business or to give them company documents."

We also remind people that a job interview may be a total sham, a way to get intelligence. We say, "Here is what would be proper to say if they ask you such and such. And if they want you, they're not going to be put off by your answers. They will respect you."

Of course, we try to play by those rules. If we hire someone, we don't say, "Gee, before you come, why don't you gather up reports with cost curves in them?" If he brings them, we don't want to see them.

Table 3-1: Types of Information about Competitors Rated Very or Fairly Useful
(by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Present status				
Pricing	97%	99%	93%	99%
Sales statistics	94	94	94	94
Market share changes	93	90	96	94
Key customers	91	94	82	94
Advertising/marketing activities	81	70	93	90
Company reputation	77	79	69	82
Distributors	63	59	62	71
Suppliers	50	46	54	55
Prospects				
Strategic plans	93	95	89	95
New product programs	91	91	86	97
Expansion plans	91	92	89	90
Acquisition/merger prospects or activities	83	86	75	84
R&D activities	80	85	69	80
Product design	79	81	73	82
Patents	56	57	51	61
Costs				
Manufacturing costs	83	88	76	77
Marketing costs	71	66	78	77
Advertising costs	48	32	72	56
Organization and operations				
Company operating style	76	75	75	78
Service capabilities	76	77	64	83
Manufacturing processes	75	81	65	73
Company organization structure	62	58	62	69
Executive changes	58	59	54	61
Financing practices	47	41	54	52
Legal actions	46	45	51	44
Executive compensation	20	15	20	31
Number of responding companies	308	158	72	78

Key points:
- Pricing emerges as the most important.
- Strategy and sales data placed second and third.

Important Sources

The importance of various sources of information about competitors was indicated by the respondents (Table 3-3).

Key points:
- The sales force and customers rank highest.
- In the next tier are industry periodicals, promotional materials, marketing research staffs, and analysis of competitors' products.

Respondents also identified their single most important source of information (Table 3-4).

Key point:
- The sales force tops the list.

A final comment on sources: A few practitioners emphasize that certain sources of competitive information are not fully appreciated. One is the corporate annual report (for example, see John Rhode's comments on page 38). Another is the local newspaper (for example, see Michael Marranzino's comments on page 31).

How the Japanese Do It

Alan K. Engel, president of International Science & Technology Associates:[1]

There is nothing mysterious about how Japanese companies gather information. However, they do seem to place more emphasis on information and have wider access to it than U.S. companies do. A regular feature of weekly meetings in the Japanese company is a comparison with competitors in terms of strengths and weaknesses. Weak areas are targeted for special attention.

According to one major survey, the top sources of outside information are business and trade newspapers, trade magazines, personal contacts, trade books, and company reports. Also, 34 percent of Japanese managers use reports generated by consultants. As yet, only 19 percent use commercial databases. This is changing rapidly, however, and database systems are receiving top priority.

Database services in Japan started almost ten years later than in the U.S., and growth is still behind. The lag can be traced to the problem of using Japanese characters in computers. At first, databases were restricted to English, which is a slower, more expensive language for non-native speakers. Now that Kanji characters can be processed by inexpensive PCs, database usage should expand much more rapidly.

The four major news publishers put out daily and/or weekly newspapers and magazines. One of the four, Nikkei, puts out a daily on general business, another on manufacturing, and a third on marketing. Nikkei also surveys the venture business once a year. One recent publication on such ventures summarizes the previous year's sales, R&D expenditures, number of employees, and line of business of 1,000 venture companies. The details on 1,750 companies were published in a 700-page book, selling for about $13. It included data on each company's capitalization, debt, sales, profits, number of employees, hiring plans, major patents, major suppliers, major customers, and overseas strategy.

Analysts also turn to information brokers. Recently a Japanese television program showed a reporter going to one. The broker quickly produced information on the reporter's family—its size, what schools the children attend, the house size and cost. With a little more time, the broker claimed, he could produce a listing of the reporter's travel for the previous two months. It is not hard to imagine that you could get valuable clues to a competitor's activities by tracking the movements of key personnel.

Another source of competitive information: companies' annual reports. In the U.S., the best way to estimate the size of a plant is to take a look. In Japan, the owner often provides detailed information on plants. The annual report of Nichirei, a packing company, gives a breakdown by district of Nichirei's plants by size, land area, number of employees, and production capacity.

As in the United States, the most valuable information comes from direct contacts with other people. One survey found that 65 percent of Japanese managers actively cultivate individual acquaintances as information sources. There is no such thing as a "cold call" in Japan. Without a proper introduction, you get nowhere. The introduction may be as simple as a phone call made by a mutual acquaintance.

Despite difficult-to-cross barriers between groups, some ready-made networks are available. For a Japanese manager, the most important is his college professor's network. He becomes part of this network when he joins the professor's research group to produce a senior thesis. It is through the professor's corporate contacts that the student finds a job, and he turns to his professor for advice and assistance throughout his career.

One documented method of Japanese information gathering takes advantage of Japanese commuting habits. The company seeking information identifies which commuter trains service the competitor's factory. It then hires students, gives them Walkman-type tape recorders, and has them record the conversations of a competitor's employees as they go to work. Since almost all of the employees will arrive on two or three trains over a 10-to-15 minute period, the chance of picking up careless conversations is good.

[1] From a talk at a recent Conference Board marketing conference.

Analyzing Information

Several approaches to analyzing competitive information are mentioned in Part II. One promising possibility is the use of teams of executives with widely varying experience to analyze and, sometimes, to supply competitive data and to suggest courses of action.

Disseminating Information

Table 3-5 shows how competitive information is made available to executives who need it.

Key points:

- The occasional written report is the most popular mode of dissemination.
- Most companies have a file of materials available on request.

Very few companies surveyed arrange for the dissemination of competitive information on a frequent basis. One is AT&T, which issues a daily competitive digest by electronic mail to 50 people (see page 22). Another is a large retail chain, whose strategic planning department at headquarters is responsible for examining the firm's strengths and weaknesses versus those of the competition. A manager of informa-

tion services in the department, drawing on periodical and trade-research material in a microcomputer database, prepares a weekly, two-page newsletter on competitive practices that is sent to 180 key executives at middle- and senior-management levels.

Specific Uses of Intelligence

Competitive intelligence is like education: you can't always be sure when you're making use of it. Executives gave some specific uses when asked: "What do you consider the best example of an important decision that relied heavily on information acquired through your unit's monitoring efforts?" (see Table 3-6).

Key point:

- Decisions involving price, strategy changes, and new products are most important.

Legal and Ethical Issues

Legal and ethical boundaries are easily crossed in the pursuit of information on competitors. But many of these boundaries are obscure, as David Parker, a lawyer, notes:

> With the difficulties of making general statements on this subject firmly in mind, the following general rule is suggested: "If you do not want to see what you are doing reported in the front-page headlines of your local newspaper, do not do it." Needless to say, the analysis cannot stop at this point. What may be embarrassing may not necessarily be illegal. Nonetheless, this simple statement provides a surprisingly useful rule of thumb![1]

[1] Sammon, Kurland and Spitalnic, *Business Competitor Intelligence* (New York: John Wiley & Sons, Inc., 1984) p. 294.

Table 3-2: Most Useful Type of Information (by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Pricing	23%	26%	20%	19%
Strategy	19	20	15	22
Sales data	13	11	18	12
New products, product mix	11	13	8	10
Advertising/marketing activities	7	3	19	4
Costs	6	8	3	5
Key customers/markets	3	3	6	1
Research and development	2	2	1	3
Management style	2	1	3	1
Other	4	4	-	8
No answer	10	9	7	15
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 3-3: Information Sources Rated Very or Fairly Important
(by type of market)

	Percent Distribution			
	Total	*Industrial products*	*Consumer products*	*Both consumer and industrial*
Sources within the company				
Sales force	96%	97%	89%	96%
Marketing research staff	83	82	82	84
Analysis of competitors' products	81	81	79	83
Planning staff	63	57	65	71
Engineering staff	53	60	36	55
Former employees of competitors	49	53	36	53
Purchasing staff	42	41	44	43
Contacts within the trade				
Customers	92	96	83	92
Meetings, trade shows	74	79	62	74
Distributors	70	68	68	79
Suppliers	65	65	61	68
Trade associations	59	60	54	62
Consultants	43	44	45	40
Retailers	37	9	72	57
Competitors' employees	37	40	30	40
Ad agencies	24	7	48	34
Published information				
Industry periodicals	89	88	90	91
Companies' promotional materials	84	84	85	82
Companies' annual reports	77	78	76	77
Companies' 10K reports	74	79	71	69
Security analysts' reports	64	67	62	61
Financial periodicals	55	49	61	61
Speeches by managers	55	55	60	48
General business periodicals	54	49	57	61
National newspapers	43	45	49	49
Newspapers in cities where competitors have facilities	42	42	44	39
Directories (Standard & Poor's etc.)	31	29	31	33
Government publications	26	25	27	28
Other sources				
Security analysts	40	42	33	42
Tracking services	38	32	48	42
Electronic databases	35	15	74	37
Investment banks	22	22	22	24
Court records	16	16	13	21
Want ads	15	18	8	15
Commerical banks	11	7	12	18
Number of responding companies	308	158	72	78

Table 3-4: Most Useful Source of Information
(by type of market)

	Percent Distribution			
	Total	Industrial products	Consumer products	Both consumer and industrial
Sales force	27%	35%	18%	23%
Publications, databases	16	13	15	22
Customers	14	13	11	17
Marketing research, tracking services	9	3	24	9
Financial reports	5	7	3	1
Distributors	3	4	1	1
Employees (unspecified)	2	2	6	–
Analysis of products	2	1	3	3
Other	8	6	8	13
No answer	14	16	11	11
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Table 3-5: Form in Which Information Is Made Available
(by type of market)

	Percent Distribution			
	Total	Industrial products	Consumer products	Both consumer and industrial
Occasional written reports	68%	72%	56%	73%
File materials available on request	60	65	53	58
Periodic reports	55	51	63	55
Occasional presentations	43	41	38	51
Newsletters	29	32	26	26
Electronic database	28	22	36	33
Periodic presentations	22	18	24	30
Number of responding companies	308	158	72	78

Table 3-6: Best Examples of Decisions Relying on Monitoring Information
(by type of market)

	Percent Distribution			
	Total	Industrial products	Consumer products	Both consumer and industrial
Pricing	16%	16%	10%	19%
Strategy	15	15	13	14
New products/services	11	6	8	22
Acquisitions	6	6	14	–
Changes in manufacturing capacity/processes	5	8	–	3
Product specifications	2	1	4	4
Sales force changes	1	2	1	–
Advertising/promotion	1	–	1	3
Joint ventures	1	1	–	3
Other	11	14	13	8
No answer	31	31	36	24
	100%	100%	100%	100%
Number of responding companies	308	158	72	78

Part II
Examples of Company Programs

American Telephone & Telegraph Co.: A Network of Experts

Blaine E. Davis, corporate vice president, strategic and market planning, and
Martin Stark, competitive information and analysis manager

Mr. Davis: One of the difficulties of doing competitive analysis is getting relevant information. It's most relevant if it comes from those who are delivering the product—the people in the business units. On the other hand, they typically don't see the benefits of the broader picture that we at corporate headquarters need to see.

The approach we've taken is to try to join those two groups. We have established an electronic intelligence network, administered by my organization, and we make sure the data is selected by the people who are in the best position to determine its relevance.

Network Characteristics

It's taken about two years of intensified effort to get to this point. We have roughly 800 users of the network. We have information on 1,400 products, 580 companies, 180 industries, and 65 geographic areas. The members of the network chose to collect this information and to make it available.

About 75 percent of the data is in a prescribed electronic format, and 75 percent of that has been updated in the last four months. Everything must be updated at least annually.

The network includes both hourly employees and executive level employees at 110 company locations worldwide. Their functional titles range all the way from strategic planning to product and market management, competitive analysis, engineering, administration, manufacturing, service, development, market research, library services, and training.

We average about 110 to 120 log-ins per month, from 50 to 60 users. Those log-ins produce roughly 500 queries. We try to make data-gathering part of everyone's job. But it's up to the source to decide who should have access to any particular piece of information.

Databases

A couple of different databases depend on this network. Our markets characterization database is basically a forecast of the information movement and management industry. It covers 71 product categories globally. We provide five-year forecasts, and all the data is sourced from the business units themselves, by the subject matter expert, with executive level sign-off. By that I mean that the responsible executives in the business units say, "This is the information we use to do our planning." So the data becomes official, and there's one source of information for each particular category.

We issue a competitive digest daily. Typically, we put it out by noontime. It's from a mixture of print and electronic sources. We use five major news wires, five major daily newspapers, regional clipping services, 20 industrial periodicals, and a number of general business periodicals. We select the top four to eight news items of the day, and we ask our experts what the competitive implications are for AT&T and for the industry. We distribute the digest by electronic mail to about 50 people. For executive level people who are keyboard shy, we send hard copy.

Most importantly, we format the digest very carefully to maintain an archive. Over a period of time, we try to relate activities and see the consequences of disparate activities that turn out to be important.

Part of the Planning Effort

The competitive analysis task is large, complex, and dynamic. The issue isn't acquiring enough information. The issue is, how do you choose from all the information that you've got?

Our networking-of-experts approach allows the databases to be small, specialized, and current. By networking, we can understand the larger picture, putting together the linkages and the patterns needed for strategic competitive analysis. All of this is part of the normal work activities of the individuals responsible for executing the strategy of the corporation. In that sense, it becomes part of the larger planning effort.

Sharing Information

Mr. Stark: My job is to respond to information requests, typically from management. I also keep them informed of competitive developments, even if they don't ask the ques-

tions. We do that by making as much use as possible of competitive analysis work that's going on out in the various business units.

For example, one of our competitors is Northern Telecom, and several of our units keep track of that company. The switching group looks at Northern Telecom, and so does the PBX (private branch exchange) group. We try to get those groups working together, sharing information. We also try to find out what kinds of studies they're doing so that when we have a question we're in a position to respond without doing extra work. That's what we mean by "distributed" information.

These groups are spread all over the country, and there are a variety of ways of staying in touch with them. They need information from other parts of the company, and they know where to come to find the contacts.

An Electronic Directory

In effect, what we have is an electronic directory. If somebody in the computer business wants to know about a development in the PBX area, we can put that person in touch with the appropriate kind of analyst. But we're also responsible for answering questions here at corporate headquarters.

For example, our planning people were examining various industries and had questions about certain competitors. Let's say they were interested in modems. There are lots of possible questions: Does Competitor X make modems? What is its market share? Does X make a modem with these characteristics or in this price range? I'm not expected to have the answers, but I'm expected to know who in AT&T can supply them. There are very few questions I can't get answered.

Who you call depends on the question. We have people divided in obvious ways—by the part of the company they're in, by what kind of work they do—and we can decide on what kind of person would be in the best position to provide an answer. We have a one-page profile of everyone in the database. For about 90 or 95 percent of the questions we get about companies or products, we have somebody who can lead to the answer. That doesn't mean it's the right person, but it will be close.

AAA: Access to AT&T Analysts

We enlisted the people in our database in a variety of ways. We published notices in company newsletters and electronic media. Probably the most effective way has been to go to a business unit and set up an AAA demonstration—"Access to AT&T Analysts"—in the lobby or just outside the cafeteria. It's a dial-in system, and if we can just sit them down at a PC or a terminal and show how it works, we can prove we have information they need.

We let users sit at a keyboard and decide what to search for. They'll type in something that's important to them—say, banking in Japan—and the system will provide the names of AT&T people who can help them. We don't guarantee that we have somebody in banking in Japan; we have people in banking and people in Japan, but we may not have the cross-section.

A third to a half of the people who come to our demos end up taking notes and calling someone whose name came up, and we certainly encourage that. Part of what we found is that we're in the business of giving people contacts and that makes these people more cooperative when we come back to them with a question.

On occasion, people resist joining our database, but I never have failed to talk them into signing up. It's a very simple argument: "Okay, you know something, but you don't want to tell me you know it. Somebody else is looking for that information. If you don't make it available to them, they're going to do substantial redundant work. They would be wasting AT&T's money, and we can't afford that. If you don't cooperate, you may be endangering our jobs." People understand that argument.

Brokering Information

The general reaction has been pretty good, partly because of the rules we set up when we started. Our goal here is not to manage the system. It's to help people that work for AT&T find the information they need.

We keep careful track of what people are looking for in the system. If you put a company name in, we know how many analysts matched your query. If there's no match, you can expect to get a call from somebody who works for me. We will do the legwork and find you a contact.

Sometimes this requires negotiation. When we first started, I met with some people who were doing PBX competitive analysis, and they needed information from the people in switching. Eventually we had to work out a three-way trade with another group. It was a question of, "I'm not going to give you what you want unless you give me what I want, and you don't have what I want, so you have to get it from somebody else." We acted as a broker and that turned out to be very successful. I know that because those people work together without me now.

Keeping Up To Date

We haven't set any goals for the size of the database in terms of the number of participants. Rather, we've set goals for keeping it up to date. We send participants their profile forms four times a year and ask them whether they're up to date. We also provide presents if they fill them out—directories of AT&T information sources, organization charts, compendiums of newsletters—and these are considered valuable commodities. We sometimes get an 80 percent response.

The software that we're using now is absolutely terrific. It's AT&T-developed, UNIX-based. We're talking about ways to make better use of the UNIX technology. As an example, one of the entries on the user form is key words. You let us know what words are of interest to you, and we'll keep you up to date on changes in our database. We'll also let you know if other people search on your words of interest. We do all

of this by electronic mail. You get a message: "John Doe queried on the following key word of yours on this date, and John Doe's phone number is. . ."

The other thing we recently started is a broadcast message. Let's say you hear a rumor about a competitor, so you go into the system and type your message and say, "Send mail to ..." The message gets distributed to everyone who has previously expressed interest in that competitor. Or say you have a technical question. You can restrict your message to engineers who have an interest in that company.

But What Does It Mean?

We've solved a lot of the technical problems, and maybe we have to spend more time on tying the information into the planning process. The people who handle competitive analysis have done lots of good work. But some of the managers perceive that what the analysts are doing is out of context: "You did this real nice study, but what does it mean?"

We have to school ourselves to ask those questions. If I get an analysis of a competitor's announcement about a new product and it omits the implications for AT&T, I have to go after the analysts and say, "So what? Does that mean we should change our strategy? Does that mean we should pursue an additional alternative? Does this give us more of an opportunity? Should we proceed quicker?" Those are tough questions. But if you don't ask them, and you don't answer them, you're not going to move forward.

Kraft, Inc.: CI as Part of Marketing Research

Larry P. Stanek, vice president and director o rketing information

Kraft's competitive intelligence gathering happens on lots of different levels and depends on how deep your definition is. Market-share monitoring, through InfoScan or SAMI, [formerly Selling Areas Marketing, Inc.], provides some information on competitors. And now, with scanners, we have a lot more competitive data than we used to. We can tell what prices competitors have been charging, what kind of product featuring they did, and what their promotional program was in comparison with ours. Then we can ask questions about changes: Why did that happen? What did the competition do? What should we do?

Another level of knowing what the competition is doing involves tracking studies, where you assess how familiar consumers are with your brands, what advertising they're familiar with, what messages they're receiving, how those messages became attitudes that affect evaluations of your products and competitors' products.

A third level is product testing—evaluating our products versus those of our competitors. All three are fairly standard tools that have been around for a long time.

In the last few years, we've started looking at some new things that can't really be measured in the marketplace. For example, we want to know when a competitor is opening a new plant or starting a new manufacturing process. We watch people changes. We note when the head of an organization moves from Company A to Company B. This is intelligence that tells you more about the company and what it's doing, as opposed to determining its performance in various markets.

A Network of Competitively Knowledgeable Employees

We've identified a network of competitively knowledgeable employees throughout the company—each with a specialty. They are 30 or 40 people from all kinds of functions—manufacturing, operations, R&D, marketing—and usually managers and directors, in some cases analytical types. They're generally middle managers, not top management, definitely not clerical.

We found these people by going to department heads and division heads and asking them to suggest people who could monitor competitive activities and keep in touch with a central facility, which is the business research services group in my department.

The members of the network keep a watch on particular journals, newspapers, and magazines. It's almost like an internal clipping service. They send the clippings to the business research services people, and they prepare a very quick browse list with one- or two-sentence summaries of each article and an estimate of how long it would take to read the full article. The list goes to about 150 people—senior middle management and senior management. A senior manager or division president can scan down the list of articles and say, "Gee, there is something about the Campbell Soup Company that interests me." Then he can request a copy.

Using Outside Vendors

This system was actually developed outside our department. We originally had two information centers. We had a marketing information center, which is part of my department, working with general brand management, and a business research center, which reported into corporate strategy. That group worked with corporate-type departments—law, acquisition, finance, treasury—and it developed the surveillance system. We merged the two pieces into one group in my department about a year ago.

Now we're exploring the possibility of having an outside vendor do this work. This vendor is a service bureau that produces a report that looks almost exactly like ours. By taking the job outside, we can cut the cost by two thirds.

What I've just described is a sort of on-the-surface intelligence gathering. If a strategic planner wants to know about barriers to market entry—certain production facilities, quality standards, or raw material sourcing—a bunch of articles would probably not suffice. The question is, how do I get that competitive intelligence?

We'll do one of two things. We can go back to the same bureau and search for any other related stuff that's in the public domain. If that fails, we might embark on a small-scale competitive intelligence project. We've got a network of consultants that we call regularly for this type of work. These information consultants have built contacts over time and may even call the companies involved and conduct interviews.

For example, one of our business units wanted to know what kind of computer systems its competitors had. So we commissioned someone to call ten companies. The role of the consultant is to find the right people to call and to get the right answer.

I get similar calls all the time. People ask how I feel about research on this or that or whether I use the Metaphor system. I wouldn't mind telling someone that we have 86 Metaphor work stations and that we're in another phase of expansion. All that tells somebody is that we've got a lot of work stations, that we must have invested pretty heavily, and that there must be more than a single functional unit using it.

Ethical Questions

Of course, there are ethical boundaries. When we hire someone to make calls to companies, he or she must say, "I am an independent research organization, and I've got a client who is doing a survey of systems departments, on the technical equipment they use, and on some basics about organization. Would you be willing to respond?" The guy can say, "No," or "Call so and so." But if the interviewer gets a refusal, he or she is not permitted to continue under false pretenses, as, for example, by implying that the call is from another division in the person's company. The respondent can say, "Who are you?" and "Where are you?" and "Can I call you back in an hour after we check you out?" Everything has to be aboveboard.

Some people in my department come from other companies and I sometimes ask them about routine things in those firms. I might ask whether such and such is still going on. The person can say, "Gee, I feel morally obligated to the company that I just came from, and I don't really want to tell you." And we leave it at that.

Of course, there's also an informal network of research directors. It's not unusual for someone to call up and say, "Hey, I've got pressure on me to do the following, and I've been thinking about these three possibilities. What do you guys do?" But these are research questions. We don't talk about manufacturing or processing methods.

Adding Value with Competitive Intelligence

Competitive intelligence is one of those things that nobody has paid attention to carefully, at least in the packaged goods industry. It's only lately that we've started to ask such questions as: How did our competitor respond to that move? How does that affect our direction? Do we have a competitive advantage? What are the keys to success in this market?

I think top management feels that we're very good at understanding the marketplace and the consumer but that we don't have enough competitive intelligence to help us dramatically in our strategic planning. I think we can fill those information gaps. We want to provide that service, but we don't want people coming in willy-nilly and asking for all kinds of weird things. We always have to ask: What do you really want to know? What are you going to do with the information? How will it affect your decisions?

The competitive-intelligence function doesn't necessarily have to be in the marketing research department, but I'm biased in that direction, because we're pretty good at getting information and assembling it and deciding what it means. If you take on the competitive-intelligence job, the first thing you have to do is stop thinking of yourself as an information person. Then, you should be responsible for acquiring any external information the company needs.

The point is that somebody in the organization will have to handle competitive intelligence. It might fall under strategic planning. It might fall under finance. To me, it makes sense to put it under marketing research. But that means the research director has to expand his horizons. It's a way of adding value.

Motorola, Inc.: A Business Intelligence System

Jan P. Herring, director of corporate analytical research[16]

Once you set up an organization with a global focus and you invest in a collection mechanism, you can gather a wide range of information, as, for example, on new technologies, or on foreign governments, if your company is thinking of going overseas. I think in terms of business intelligence rather than competitive intelligence. Motorola's staff conducts research on competitors, industry segments, technology, political issues, countries, and customers.

In order to sustain a business intelligence system, it has to be recognized as a corporate-wide resource. When I arrived at Motorola, I was introduced to about 15 vice presidents and general managers at a policy committee meeting. The group included general managers of the five operational divisions and the heads of personnel, international, and finance. I gave a briefing on the intelligence program and what it could do for them and then went out and met with them and their staffs. I made sure they knew we were available and ready to work closely with them.

Early on, I developed an appreciation for managers' needs. When I met with a general manager, I would ask, "What are the five most important things you need to know about the external world?" The answers varied a lot, from "I want to know about a particular competitor who's really eating our lunch" and "I want to know who my competitors are going to be in China," to "I need to know more about a new technology that will affect the way we build our microprocessors."

From those discussions, I drew up a list of about 35 key intelligence topics and assigned each a priority. That exercise produced the table of contents for our program, which, in turn, determined the kind of talent we needed on staff and the kind of information to collect.

Piecing Information Together

Collecting information is only part of the job; there also has to be interpretation and analysis. You have to be able to take the information, store it in a retrievable fashion, pull it out, piece it together, and say, "That's the hypothesis. Let's get more data and see what the competition's actually doing." You may have to watch a competitor for 18 months before you're able to determine what strategies are being used.

For example, we were selling communications equipment to national and local governments in the Far East and had recently begun losing bids to a major European competitor. When the competition began to build, one of our international managers asked, "What the hell are they doing? Why are they beating us?" I said our group could probably answer those questions and he took up our offer.

We contacted some of our personnel in Europe and began receiving bits of information in response. We also went back into our own database, which includes abstracted information from many sources. In addition, we scanned about 180 magazines from around the world and pulled out everything available on our competitor. In about 30 minutes, we had about 160 articles and reports. One of our own reports, commissioned a year earlier, gave a summary of the competitor's operations in the Far East.

We analyzed all that information and it became evident that our competitor had advantages. First, the communications equipment it was selling had features allowing the customer to expand into another type of communications service. Second, our competitor formed partnerships with local construction companies so that the communications package it offered included not only equipment but also buildings and support structures. Third, the company wasn't selling state-of-the-art equipment, so it was willing to transfer the technology. In short, the approach was, "We'll supply the equipment, build the plant, and give you the technology." A winning combination.

Once we understood what was going on, our people could put together a better package. We could offer better equipment and show that what our competitor was offering was obsolete. We could make point-by-point comparisons.

Anticipating Competitors' Moves

We subsequently discovered that the same company was putting together a similar program in Europe. It had won several bids and had made a crash effort to translate the tech-

[16] Now vice president, business planning and strategy, The Futures Group.

nical instructions into Spanish. The company was using far more people in this project than seemed normal, so we investigated.

We did a thorough review of the trade press, checked with Motorola people in Spain, and eventually concluded that the company was preparing to move into South America. We issued reports that alerted our international people to the problem, and they were prepared to counter the competitor's move as they had in the Far East. We were able to make a very good case against their products and approaches to the market.

Computer Problems

Our collection and analytical capabilities were good, but we had a problem in information services. We used an information management package called Inquire, which can be put on the mainframe and operated by computer-oriented analysts right away. We also had an excellent communication network with 5,000 terminals, worldwide. The trouble occurred in designing the interface—the program that would allow people who were not really computer-oriented to operate the system easily. That took nearly three years.

We had superb support from our MIS people, but our project was always competing with those of higher priority. Also, our MIS people had to learn the language, learn about intelligence. Then we had to work with our potential clients to perfect the delivery. The system should have been up and running in a year and a half.

We could have hired the developer of Inquire to help us tailor the package, but I would have had to use my own budget. I felt compelled to use our own MIS people because they absorbed most of the developmental costs. In looking back, I would say that, if you can afford it, you're probably better off hiring someone who specializes in systems for intelligence purposes.

The Information-Sharing Organization

One of the major objectives in any intelligence system is to create a sharing culture in the company. Being able to come on-line and read information that others have put in is an incentive to contribute. Then it becomes a self-sustaining database. Individuals doing research on particular topics know they can go to that database. If what is needed is not there, a research organization is available to help. Information is handled this way in the government. It's a large information-sharing organization, and decision-makers at whatever level have access to the data they need.

Corporate organizations are moving in that direction. Peter Drucker refers to the corporation's organizational need for the "information-based model," which will need a system that gathers information from the external world and brings it into the organization, categorizes or analyzes it, and then makes it available to whatever level in the company needs the information to make a decision.

Beyond Competitor Analysis

One of the big problems is making sure that you're working with real-world problems. Too many nice reports on competitors don't say what to do about them; there is no link to action. I'm not saying the analyst has to make the actionable recommendation. But there are ways of producing an analysis that highlights the alternatives, decisions, actions that the reader should consider. You need a way of transforming those observations into actions. You also need some sort of pro-action group to bring the intelligence analysts and the operational manager together on this issue.

There is a need for a broader definition of intelligence for corporate decision-making. Corporations have to go beyond competitor analysis. The most powerful tool I've run into is what I call competitive environmental analysis. You take apart a particular industry and see what's really driving the competition. Is it cost? Is it quality? Is it delivery? Is it enabling technology? Is it exchange rates? What is really going on now that will make that industry competitive in the future?

When you look at the determinants of competition, it's more apparent why companies behave the way they do. Competition is no longer one company against another. You're really trying to outperform a class of competitors. If you're just another guy in the pack, your margins aren't going to be any better than anyone else's. On the other hand, if you're very sensitive to these competitive forces in the environment, you can really get out ahead. All firms experience the same forces, but you're just a little bit quicker.

A Major Equipment Manufacturer: Using Competitive Intelligence to Turn the Business Around

The marketing vice president

One of the company's core businesses was in serious trouble. The division had been the market leader for years, but share had decreased fast. I was one of the people brought in from other parts of the company to try to stop the bleeding. Our consultants said it was the steepest decline of a market leader they had ever observed. We were under severe attack, and we had to find out what our competitors were up to. But the loss was so broad that, at first, we couldn't really tell which competitors we should be worrying about.

There was a tremendous amount of information, but much of it was in conflict. We found that markets had been defined so that the division's market share looked much better than it really was. We also saw a lot of defensive, protectionist kinds of statements that weren't necessarily misleading but probably intended to avoid attracting attention— "Just tell them what they want to hear."

Organizing a Team

We clearly needed some competitor intelligence. The first stage was just back-of-envelope stuff. We didn't think of it as competitor intelligence but as structural analysis.

People in the division knew that our key competitor's prices were significantly lower than ours but kept saying, "They must not know what their costs are." I knew a lot about the parent company and was sure that wasn't the case. The firm obviously had real cost advantages, and I wanted to find out where they were. One was in labor: our plant was in the north and their plants were in the south. I was sure there were other advantages.

We hired a consultant to help us analyze our costs for our three most important products. Then I formed a group to work on our twelve other product lines. We had been forced into some big layoffs, but I managed to retain some people for a profitability improvement team, which included a few dozen engineers, and manufacturing, financial, and marketing people. Their full-time job was to work on this problem—to analyze where we stood and to come up with solutions--and they were on it for about two years. (I started off with a timetable that said January to October; I was totally wrong.)

The consultant proposed coming in, giving us the answers, and flying home. We said, "Absolutely wrong." We arranged for the consulting firm to form teams to work on three products; half of the team members would be our employees. The purpose was to train our people so we could repeat the analysis. Also, having our people involved helped to diminish the defensive attitudes pervasive in our division at that time.

Alternative Scenarios

We asked ourselves all the basic questions: How big is the business? Where do we sell our products? How much do they cost? And of course we asked the same questions about our competitors. The engineers bought competitors' products and took them apart to figure out how the costs added up, in terms of design, materials, and labor. We discovered that our products were much more complex than they had to be. Then we started to develop our own strategy for dealing with these differences. We considered all the options and came up with various scenarios. In one product line, we developed 28 different possibilities.

For example, a scenario could involve redesigning a product line to simplify it. Besides introducing more automation, we could take some operations offshore and procure all the tooling in the Far East. Then we play that out to discover what happens to the inventory, what happens to product cost, what happens to market share, and so on.

The analysis is very complex because the design affects labor costs; automation affects labor costs; and the overhead burden is affected by labor costs. Everything affects everything else. I think there were probably seven, eight, or nine very strategic decisions played out in each scenario.

Counting Cars and Smokestacks

In our analysis, we drew up a long list of questions about ourselves, and we wanted to know the same about our competitors: How big is the plant, where is it located, what is its capacity, what percent of capacity is being utilized, how automated is it, in what state of repair is the tooling, what are the fringe costs?

For some of that, you need somebody who has just toured the plant to tell you what is going on. Customers were probably our richest source of that kind of information. Trying hard to prove how great the company is, a competitor will give a customer a factory tour and tell absolutely everything about what is going on.

Quite often a customer would wind up telling us, "I was at their factory last week, and they offered to do X for us; you say we would have to do it ourselves if we buy from you." That's part of normal negotiation. In the course of such a conversation, we can make some discreet inquiries about the competitor's plant: "What machines are being used? Are there double shifts?" Or, we could call up people we know in the customer's company. Sometimes we talk to people who come in to sell the same kind of equipment that our competitor uses.

We've sent people out to look at the plant, count the number of smokestacks, count the number of trucks. We've chartered a plane to fly over a plant and count cars. One thing that's extremely valuable to obtain is a telephone book for the facility. If you have one with titles and departments, you can postulate what the organization chart looks like. If you put together all of these bits and pieces, you can develop a profile of a facility. You can draw a chart for engineering, support engineering, industrial engineering, and on and on. You can cost the whole thing as if it was your own budget. You know which plants are old, which ones aren't working too well. Now you've got something to work with.

From Dramatically Bad to Dramatically Good

In formulating our final strategy, we took account of the behavior of our main competitors. After we figured what our best play was, we had to postulate their's and the odds of their making it. We thought they were probably pretty complacent and not paying attention to what we were doing.

We had to act fast. We narrowed our choices and made some pretty dramatic decisions. For example, in one case we redesigned the product line, automated heavily, built a plant in Mexico, and had an 80 percent headcount cut in the U.S. The change was perceptible to everyone in the industry. It was also evident at corporate headquarters: the numbers went from dramatically bad to dramatically good. The profit change that we made was on the order of 20 some points of revenue. It was a classic turnaround.

Applause

The factual and analytical part of our turnaround project was only half of the equation. If the people on the team hadn't cared about each other, and hadn't had the same values about working together, having fun and winning, I don't think the project would have worked. We applauded individual successes and team successes, and we acknowledged failures without beating people up. We said, "If we fail, we'll fail in a way that the Harvard Business School would be very proud of. And if we don't fail from time to time, we're not taking enough risks."

There *were* failures. Some of the products we came up with were just physically impossible to make, given the cost objectives we had set up. In one case, a couple of team members came in after working until midnight for weeks and said they just couldn't produce the product we wanted. We had set a pretty lofty goal, and we knew it was a high-risk effort. So, when we failed, we celebrated.

Ownership

When we went to corporate management, we didn't say, "Here are 28 scenarios. Please pick one." We showed how we had arrived at the one we thought was right. We showed examples of the analytical process and the people process.

We had originally talked about having a planning staff handle the analysis instead of the team. With a planning staff, we could have dealt with five or six people instead of having to retrain 50 or 75 people. We could have had better, faster reports and in a consistent format. But when you haven't done the planning yourself, you don't know what's in the guts of the analysis, and that knowledge is extremely useful when it's time to implement the plan.

The analysis we did gave our people a lot of confidence and that permeated into other areas. Our people had a feeling of ownership because they had done the analysis themselves.

Adolph Coors Company: Through Your Competitors' Eyes

Michael Marranzino, director of sales and marketing operations[17]

When we entered the competitive intelligence business in 1981, we found we did a lot of collecting and filing but almost no analysis or reporting. We ended up with lots of data that had a very short shelf life, and we weren't moving it off the shelf.

Now we try to spend about 40 percent of our time collecting and 60 percent on analysis and reporting. We get some of our most useful tactical information from our field sales force. They tell us what is happening—the kind of information we can react to quickly. We also rely heavily on local newspapers for competitor information. I might add that local newspapers report way too much about companies that happen to be headquartered in their cities. They have inside sources and collect an impressive amount of information.

Automating the System

At Coors, we began with a manual system for storing data, but this year we installed a Metaphor network system. This is a collection of workstations that can retrieve information from a mainframe database. It allows the user to manipulate data with a spreadsheet, word processor, and relational database, and then transmit a finished report to other Metaphor stations or print copies.

[17] These comments are drawn from a talk at a recent Conference Board program.

At present, the Metaphor system only handles numerical data—industry volume, market share, pricing, advertising expenditures, etc. Our textual information is still handled manually in hard-copy form.

We can teach a person who knows absolutely nothing about computers to use Metaphor in about half a day. It's been an excellent tool for us. Our next task is to effectively handle soft data, that is, storage and retrieval. We're about a year away from integrating that capability into Metaphor.

Solving the Corporate Puzzle

We spend a lot of time trying to understand our competitors' corporate personalities—who the decision makers are, why they do what they do, what drives the company. It's like trying to solve a complex puzzle with some of the pieces missing.

We use a number of approaches—pattern recognition, scenario development, assembly and reassembly of pieces of information, game playing, and content analysis—but the most useful method is our periodic think-tank sessions. We use technical, marketing, sales, and planning people to analyze information for our planning process.

We gather about ten people in a room, twice a month, in long sessions—anything from three hours to a couple of days. The sessions have no formal structure. We examine and massage the latest competitor and industry information to determine where things are going and what we should be doing.

A Large Petroleum Company: Intensive Competitive Intelligence

The director of marketing research

Marketing research, in its broad definition, is competitive intelligence. But recently we have been doing something I would call intensive competitive intelligence. We said we needed to identify our competitors and everyone said, "But we already know. There are only a handful of companies, and Company A is at the top of the list." We said, "But how do you know?" And they came up with a list of reasons: "They have all kinds of resources, and refining and crude capacity, and when they do things in the marketplace, they do them right."

We said, "Fine, but shouldn't we define our competition in a more practical way? Shouldn't we ask customers what they think? If our customers couldn't get our brand, what brand would they buy?" To me, customer answers define the competition.

So we did a simple survey and discovered that the answers weren't simple. It was possible to segment the market geographically and discern our major competitors. But when we put the data together, it was clear that Company A was our principal competitor. This confirmed our senior managers' gut feeling. This isn't surprising; in most cases they are right. Of course, the best marketing research not only confirms management hunches but also adds new insight.

We suggested to management that we form a task force with representatives from marketing research, refining, production, and R&D to study Company A's capabilities and develop a complete profile. This was done under the auspices of the planning department, but it simply coordinated.

The task force developed a project outline. We decided what kind of information we needed, what it would cost to gather it, and how long it would take. Then each member took an independent course. We met whenever one of the members had something to share.

Marketing Research's Role

Since marketing research had collected so much useful information in the first survey, it was chosen to make a presentation to senior management before the other three task forces were ready. One advantage of having marketing research go first was that it set the stage. We made a half-day presentation to about 20 people in senior management; a couple of months later, another half-day presentation was given by the three other groups.

In the marketing part of the project, we wanted to find out what kinds of markets Company A was in, its marketing strengths, and its marketing, advertising, and pricing strategies. The other groups looked for comparable kinds of information—size and composition of their octane pool (once you build your refineries, you can't easily change the octanes), refining capacities, and such. The information is available in annual reports, consultants' studies, papers published by R&D people.

Primary sources are important, too. We are not that smug to believe that we have all the answers, all the wisdom, all the insights. We know and respect our competitors, and we look at them both as threats and as sources of inspiration. We want to compare ourselves with them so that we have a better idea of how well or how poorly we are doing. We also want a better fix on competitors' strategies, not only what these are, but how well competitors are executing them.

So we interview our competitors' dealers, not to steal their secrets, but to learn from them. Some probably interview ours, too. But this way is a lot less expensive than running a dozen other studies and getting this information through the side door.

Institutionalizing the Process

The internal project took about one year, and our department's expense was about $200,000. Then we were asked to do a similar project on the next strongest competitor. We've done three so far, and each time we update the information gathered in the earlier projects. This is in addition to our regular tracking studies, which measure consumer attitudes and behavior.

So our main sources are marketing research and publications. Of course, each company has its own publications, and

we read them all. (We have about 12 that are directed to different types of dealers and districts.) Two years ago, we found an interesting article in one of our competitor's employee publications. A vice president was saying, "This is what our company is all about, and this is where we want to take the company in the next five years. We want to be this, and this, and this." There was the company's strategy, all spelled out.

We report on all of these things in occasional publications and in our annual presentation. Top management says, "Keep it coming."

A Major Insurance Company: "What Business Are We Really In?"

A planning vice president

Competitive intelligence is not anything new for us. Our multiple divisions have always looked at their competition, either from the product or service point of view. And typically, the competition was judged to be other insurance companies. As the insurance industry became more blurred with financial service industry, however, the view of competition has expanded. For example, we're now in the business of selling mutual funds, managing pension assets, granting commercial and residential mortages, buying and selling commercial and residential properties, in addition to offering our traditional products.

We realize that events have to be put into a corporate perspective. An analysis of competition in, say, our personal insurance business may bubble up to the corporate level. But then who assists top management in relating that analysis to our group insurance business, to property and casualty, or to other company elements? How do we recognize the synergies and opportunities? We have more than 100 subsidiaries in many different businesses, and there may be ways to capitalize on connections that will produce new products, new avenues to reach our customers.

We have to keep asking, "What business are we really in?" and "Who are our competitors?" That requires a more systematic corporate level approach to competitive analysis. For example, many financial services companies are beginning to sell technical capabilities. Some banks and some brokerage houses are spending many millions of dollars on backroom computer services they intend to offer to outsiders. These customers could be our customers, considering our technical expertise, and we have to recognize the potential for new competition and new products and services.

The competitive intelligence process is also an important developmental or educational device. People learn to think more clearly about their competitors and, in turn, about their own companies and what has to be done to continue to be successful. It gives them a broader perspective.

Top management is interested in taking an across-the-board look at our markets and our capabilities vis-a-vis our competitors on a fairly regular basis. Accordingly, a team of key people from different parts of the company meets once a month. The team members are enthusiastic about the project because (1) it's an educational experience, an opportunity to share knowledge, and (2) there is the full support of top management.

The team members are all knowledgeable, respected professionals from our lines of business. They're all go-getters—they know how to get things done and how to work with other people. In the process, they are also helping to evolve a dynamic, interactive, corporate competitive analysis system which can and should identify new opportunities for the company.

Taking the Next Step

Selecting the right data sources, and being able to translate them into information and strategic knowledge relative to our company's plans and operations is the most difficult part. There is too much available data. Of course, we have access to all the usual sources—Dow Jones, Nexus, Dialog, etc.—but we're also trying to assimilate public information from non-traditional sources that may be more pertinent for our purposes.

We're also trying to avoid a regimented reporting system. We don't want a heavy paper flow which could be interesting, but not be useful, and could "die of its own weight." I see a lot of people thinking of competitive analysis in terms of data flow.

They should be taking the next step based upon the available data and information, and seek answers to the following: What is our competitor's strategy? What are the critical success factors? Where are the opportunities for our company? Top management doesn't want a regurgitation of what they already know from reading the papers and trade journals. They want an interpretation of that information which could provide useful input to the strategic and tactical planning process.

Pfizer, Inc.: Using a Study Group to Assess a New Market

William L. Sammon, manager of competitive analysis, corporate strategic planning[18]

One of Pfizer's strengths is that we have a very small corporate planning staff that's divided into two groups. One includes the operational people, who oversee the budget and work under the controller. The other, my department, corporate strategic planning, is principally responsible for business development. We also deal with competitve issues that cut across business units. So we play the role of an "in-house" consultant. We're not viewed as threatening because we don't sign off on the budget review. I think that helps us coordinate some of the intelligence that goes on at Pfizer.

But the intelligence isn't very systematic. This is a very decentralized company. The operating presidents and general managers have their own planning and marketing elements, and we establish relationships with them on a fairly informal basis.

A Case In Point

At one stage, the generic product threat in the pharmaceutical industry became a major concern because of legislation that reduced the amount of red tape required to get a generic drug approved. So a task force was set up, at the request of Pfizer's president, to analyze the competitive impact.

We got involved with the company's domestic pharmaceuticals group, the research and development staff, and the Washington office, which is very knowledgeable about the legislation. We acted as consultants on the strategic potential, looking at who the competitors were and what the international experience had been. What could we learn from those few cases where there was a generic industry overseas?

Another major source of information was our credit department. We were selling products to the wholesalers, and the wholesalers in turn were buying from the generics. So the wholesalers were a good source of information on the generic manufacturers' financial structure. This is information marketing people wouldn't normally see.

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Independent Analyses

We came together as a study group. Each of the participants prepared a piece of the analysis. The piece we prepared was an overview of the generic industry—its economic and competitive characteristics. Who were the strong players? What was the degree of integration? Where was the power? We discovered that the buyers in the generic industry were far more powerful than the buyers in the ethical industry. Because there was relatively little product differentiation among generic drugs, price and service were the driving variables. This worked to the advantage of large institutional buyers, e.g., national wholesalers, hospital networks, and chain drug stores.

We also analyzed ten competitors in the generic industry—a heterogeneous mix of public and private companies, a few of which were small divisions of larger corporations. Our ethical drug marketing people didn't sell to them to any extent, and weren't very knowledgeable about them. So external sources of information, such as Wall Street analysts who were touting the generic companies as a new play, were critical to our collection effort. In many cases, these were $50- or $60-million companies. Our marketing people didn't even have them on the radar, because the pharmaceutical industry's tracking services record brand names, not generic names. But collectively, these generic companies represented a grave, long-term threat.

Each study group participant prepared a separate report, all of which were sent as a package to the president. The group also prepared a slide presentation and competitive analysis briefing for senior management. A subsidiary set of issues came out of that meeting, which led to separate monographs.

One important issue was how to define the generic opportunity? Is it manufacturing driven or distribution driven? We decided it was more of a distribution type business—a lot of manufacturers and very few distributors—because it's an undifferentiated product. Because the barriers to entry were relatively low, we thought that, as the market for generics expanded, it would be relatively easy to get into the manufacturing end, but difficult to get into distribution, where the

critical competitive leverage would be. That led to a study of the distribution industry, drug wholesalers and generic drug distributors, which raised some interesting opportunities for Pfizer. The study of the generic industry is updated periodically.

Organizing Information Systematically

We try to feed competitive information in whenever we can. For example, we were evaluating a number of small Japanese and Northern European drug companies as potential acquisition candidates. It was decided that the report would include an addendum with an update on the top 40 global pharmaceutical companies that have a major research commitment. This required bringing together some simple information on each company, but information that had not been well organized before: total corporate sales, the percentage of prescription pharmaceuticals, the percentage of products selling more than $100 million a year, the percentage of R&D money going into ethical pharmaceuticals, the character of the company (pharmaceutical, chemical, or consumer), and general corporate strategy. Our sources were analysts, overseas services, and Pfizer offices in the appropriate countries. But perhaps the best source was the trade press.

Everyone reads the trade press, but not systematically by company. Some people say you can do this electronically, but you can't monitor the information electronically. An electronic database is very useful when you have an identifiable question, target, or subject. But to get a sense of the trends in the industry, there's no substitute for what any junior grade intelligence officer does in the CIA: you read the literature, you follow it closely. That's what a sports writer does.

We've been fairly successful in making competitive analysis a part of the planning process. When managers come up for their annual strategic planning reviews, they know that senior management is going to press them on the competitive situation. They know that, if they try to blow smoke, they're going to be embarrassed. The word gets back, very rapidly. If top management doesn't place that kind of emphasis on competitive intelligence, it is not possible to successfully set up a system.

From an Operational Focus to a Strategic Focus

Most people outside of my department would view me as someone who does analytical work in support of merger and acquisition activity. But I also have the charter of piecing together bits of information scattered throughout the company on issues as they come up. I haven't been too successful at getting periodic reviews of the competition on senior management's agenda. The problem is that those reviews aren't action oriented. There's no immediate decision to be made.

In the military, you have two types of briefings. One is an information briefing, and the other is a decision briefing. Both use intelligence. But in a corporation, an information briefing isn't deemed a valuable use of time.

It's very important to have periodic competitive intelligence reviews, because it provides the context in which the action issue, as it comes up, is seen in greater detail and clarity. You have to go further up the learning curve each time an issue comes up on an ad hoc basis. Part of the problem is trying to move management from an operational focus to a strategic focus. It's a little easier to do that in this department, because mergers and acquisitions suggest long-term complications and opportunities, particularly if you move into something like distribution, which is outside our direct focus—the development, manufacturing, and marketing of ethical pharmaceuticals. There's more of an appetite for an overview of the business.

Combustion Engineering Inc.: Integrating Planning and Competitive Intelligence

John Rhode, vice president of marketing and planning, industrial group

We periodically gather a group of people from various functions in a particular business unit to compare our costs with our best estimate of our competitors' costs. We go over costs line by line—labor, selling, and so on. We try to get some consensus on whether our costs are about the same, or we have an advantage or disadvantage. If there's a difference, we try to determine whether it's large or small. The utility of this kind of analysis is that you begin to understand where the differences are and whether you have a chance to close the gap over time.

For example, one of our business units was considering putting in a significant amount of automation because they perceived themselves to be at a cost disadvantage with respect to their main competitor. We analyzed the situation and came to the conclusion that the competitor had a 12 to 14 percent advantage in certain manufacturing costs. By spending the better fraction of a million dollars in automating some of our processes, it was estimated that our labor costs could have been reduced by between a quarter and a third. But it turned out that labor was only 10 percent of the total manufacturing cost, so there was no way we could close the gap. The only solution for that particular product line was to come up with strategies that would overcome the cost disadvantage.

The Three Blind Men and the Elephant

We try to assemble both the business unit's top management team and those people who have competitor intelligence. Competitor intelligence does not only come from the sales force or the marketing group; in many cases, manufacturing people are very important. For example, when the marketing people start talking about what they perceive to be the case, the manufacturing guy may say, "I used to work for a company with a plant in that area, and the labor costs were higher than you're estimating." I try to get as many of the management team members involved as possible, because they need to be committed to the strategies we invent. And these strategies have to flow from buying into the competitor analysis.

There are a lot of people in the business unit who know something about a competitor. But it's almost like the three blind men and the elephant: each one examines a small part of whole. When you put them all together in a room, they are amazed about how much they know. That coalesces into one or two sheets of paper presenting all we know about a competitor's strengths and weaknesses, and our judgments with respect to a competitor's strategies and measures of success.

That is the beginning of a competitor file. The file is normally maintained by the marketing or sales people, but there is one person charged with the responsibility, and that person is expected to include in the file any information that has potential strategic value.

The Competitor Profile

The competitive analysis team varies with the business unit. The smallest team might have three or four members, and the largest, 10 or 12. The marketing head and the sales head—if they're separate—should be team members. In some cases, a regional sales manager, or even a salesman who has competed against a particular competitor might be included. There should be at least one manufacturing person—maybe the head of manufacturing and a plant manager—and an R&D or technical person. You would want at least one financial person, possibly two; but what you're looking for is management-level information, not audit accuracy.

This kind of exercise can provide a fairly precise competitor profile. For example, we recently had a letter from a finder about a company. It was one of those anonymous descriptions: "There is a company in your industry that is possibly for sale. . ." It didn't sound like any of the companies I was aware of, so I got hold of the individual who was keeping the competitive file. Then it was very obvious which company the finder was referring to. Of course, he had been pretty vague, but the ranges he had given were right in line with our estimates, and our file was much more detailed about product line, production capabilities, and everything else. Of course, the finder's letter got added to the competitive intelligence folder.

Giving Managers the Right Tools

When I took over planning responsibility for the industrial group, one of the things that used to fry me was when a general manager would say, at the end of a planning period, "Boy, I'm glad that's over. Now I can get back to running my business." At first, I used to think, "What's the

matter with those guys? Don't they understand planning is the essence of the general manager's job?" Then I realized they were saying that the planning we were doing and the way that we were doing it was irrelevant to their decision framework.

What was really important was having people in the planning department figure out how to give them decision making tools. The competitive folder is one of the tools we developed. It helps general managers to decide how to react to pricing initiatives by a competitor and how to come up with tactical moves, as well as looking at the long-term strategic situation.

Taking Competitive Intelligence Seriously

It's possible to assemble an enormous amount of information, if you take the time. We had one manager who got turned on about the idea of competitive intelligence. When he put up his cost estimates on a competitor, they were so detailed that the people in the group were wondering what his sources were. He did it all totally aboveboard, with public information. I advise everyone involved in this process to identify their sources so that it will be obvious that we do not exchange information with our competitors.

His unit was serving the steel industry. It had three or four competitors, all of them in a reasonably small area. When the manager saw a dip in his sales, he became concerned about whether he was losing market share. He dispatched people to check the competitor plants. They counted trucks for a couple of days. Since everything was going out on flatbeds, it was easy to estimate shipping levels.

Revelations

One of the beautiful things about competitive intelligence is that the competitor has to tell his customers what he wants them to believe. If you read their ads and their annual reports—and put them into a historic perspective—it's obvious where the company is headed.

Once I had to do an analysis of several companies in a particular industry. I went to the library and looked at their annual reports over eight years. It was amazing how much I learned. You can't look at just one annual report, because it all sounds like motherhood and apple pie. When you look at several, you see a pattern. When a president talks about a grand new initiative and how well it's being received by customers and how volume was better than expected, and there isn't one word about margins or profits, you know he's losing money.

You can listen to companies talk about different things in different ways, and tell two years ahead of time which companies will drop out. Take a look at how many pictures in an annual report are of the new strategy or area versus the old one—and how many lines and paragraphs it gets—and you're going to find out how well a company's doing.

If a company does a decent advertising job, the ad campaign will give you a warning signal. The ads will tell you what market segments they're emphasizing and what they're trying to do with their product line. I don't have to see their strategic plan; I know what it is.

What more do you need? Next to knowing what your customers want, the most important thing is to know what your competitors are doing.

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